THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION PROGRAMME
FINAL EXAMINATION – 2023 AUGUEST
MCP2605/MSP9305/AFP9305 – MANAGERIAL ECONOMICS
DURATION: THREE (03) HOURS

DATE: 06.08.2023   TIME: 09.30 am. – 12.30 pm.

Answer any five (05) questions. All questions carry equal marks (20 Marks each).
Use of Non Programmable calculator is allowed.

Question No. 01

a) "It is important for most of the modern day firms to penetrate into and to compete in global market, if they are to survive and ensure profitability." What are the restrictions and complications a firm might encounter when expanding business to other countries? Explain with examples.   (06 Marks)

b) "The knowledge of economic concepts like, "Economies of Scale", "Economies of Scope" and "Learning Curve" are important for business managers to make constructive decisions, especially to bring cost down, in determining price, thus to gain competitiveness." Elaborate with examples.   (09 Marks)

c) Making correct and appropriate pricing decisions is vital for any business firm and some such methods widely used are, Cost – Plus pricing and Two Part Tariffs. Providing examples differentiate between the given two methods.   (05 Marks)

Questions No.02

a) Using the concept of Elasticity, explain whether you "agree" or "disagree" with the following statements. Provide illustrations where appropriate.
   i. For policymakers achieving the objective of higher farm income requires that farm output be restricted.
   ii. Drastic reduction in supply of oil by OPEC, will largely increase the price of oil in the world market, with proportionately smaller decline in demand.   (10 Marks)

b) i. " The Price - Quantity relationship shown on an individual demand curve are the result of utility maximizing decisions at various prices." Confirm the validity of the said statement using the indifference curve analysis.
   ii. Utility function of a person given as; $U = S^2C^2$ (S- shoes, C- clothing).
   Person has Rs, 16000 to be spent on two goods. The nearest shop has the following price tags: shoes Rs. 2000, clothing Rs.1600. Find the welfare maximizing quantities of "S" and "C" that the person will choose.
   How would the person react, if price of a pair of shoes increases to Rs. 2400/=, while all else remains the same. Does it confirm the law of demand? Explain.   (10 Marks)

Question No. 03

a) i. Why is that the only stage for a rational firm to be in, is the stage 2 of production in the short run? Explain using illustrations. **(05 Marks)**

   ii. The production function of good "X" is given as; $Q_x = 48L - L^2$;
     (L – Quantity of labour, Q – Output).
     If the unit price of X is Rs.120/=, and the wage rate is Rs.1920/=. How many labours should the firm hire to maximize its profit? **(04 Marks)**

b) The production function of a firm is given as; $Q = 320K^{0.5}L^{0.5}$
                K –Capital   L –Labour

   i. Determine the equation for expansion path assuming that the price of a unit of capital as Rs.25/=, and unit of labour as Rs. 16/=.
   ii. Find the efficient combination of inputs needed to produce 6400 units of the given good.
   iii. What is the nature of returns to scale reflected in the above function? Explain. **(06 Marks)**

c) Using Iso – Quant, Iso –Cost analysis explain how firms combine, for example, labour and capital in producing a given output, based on the availability and the price of factor inputs. **(05 Marks)**

Question No. 04

a) i. "Short run loss making Perfectly Competitive firm could still continue to operate" Do you agree? Explain using illustrations.

   ii. The total viable cost of Perfectly Competitive firm is given as;

$$TVC = 296Q - 32Q^2 + Q^3$$

Find the price below which the firm should shut down? **(09 Marks)**

b) Suppose the market demand and supply equations for a Perfectly Competitive firm given as,
         $Q_d = 32000 - 40p$ $Q_s = -8000 + 60p$

The average cost function of an individual firm that operates in this industry is given as;
$$AC = \frac{480}{Q} + 80 + Q$$

   i.   Find the profit maximizing price and output.
   ii. Calculate the economic profit or loss of this firm.
   iii. If the firm is making economic profit can it continue to make economic profit In the long run? Explain using illustrations.
   iv. Could the long run equilibrium of Perfect Competition bring about efficient allocation of resources? Explain. **(11 Marks)**

Question no.05

a) i. "Monopolistic Completion results in inefficient allocation of resources, but this could be considerably reduced through the benefits it offers to consumers by means of product differentiation." Do you agree? Explain using examples. **(06 Marks)**

b) The short run demand and cost equations of a Monopolistically Competitive firm are given as;

$Q_d = 320 - 10P$ (Demand) $TC = 480 + 12Q$ (Total Cost)   (Q – Output, P – Price)

   i. Calculate the price and output if the firm aims at,
      a. Revenue Maximization   b. Profit maximization
  ii. Highlight the difference in behaviour when maximizing revenue and when maximizing profit, using illustrations.
  iii. Calculate the economic profit/loss. **(08 Marks)**

c) " Monopolistically Competitive firms tend to operate below their optimal capacity, in other words, there is underutilized capacity in the long run" Do you agree? Explain using illustrations. **(06 Marks)**

Question no.06

a) "On the demand side, the Kinked – Demand curve gives each Oligopolist reason to believe that any change in price will be for the worse" Do You agree? Explain using illustrations.

At a time of economic recession, could the behavior of Oligopolists be as same as the Kinked – Demand curve model suggests? Explain. **(09 Marks)**

b) i. Define the following;
      • Nash equilibrium
      • Dominant Strategy **(04 Marks)**

ii. "One of the limitations in "Nash equilibrium" is that there can be more than one equilibrium." Analyzing the below given payoff matrix, (information of two competing firms whose objective is to increase their profits by price changes), explain whether you agree with the given statement.

Firm 2

		No Price Change	Price increase
Firm 1	No Price Change	20, 20	80, -20
	Price Increase	-30, 40	120, 50

(07 Marks)